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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Trade Measured In Dollars . . .

Recent trends in the U.S. trade deficit (both globally and vis-a-vis Germany and Japan in particular) have caused the dollar to come under significant pressure in the foreign exchange markets. So far this year the dollar has fallen by about eight percent against the German mark and 14 percent against the yen. In nominal terms the U.S. trade deficit has widened by $3 billion (GNP basis) in the first quarter of this year compared with last year's fourth quarter.

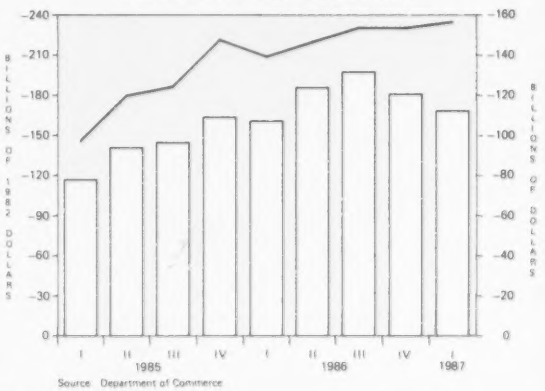
Coming more than two years after the dollar peaked in the foreign exchange markets, this appears to be cause for concern. The trade deficit, on the surface, remains a major drag upon economic activity. However, closer scrutiny of the numbers reveals some reasons for cautious optimism. First of all, January's deficit was revised to $12.3 billion from the originally estimated $14.8 billion, the smallest such deficit since March of 1986. Second, February saw a substantial jump in exports, which rose 7.2 percent in value from the year-ago level and were up 13.6 percent from January's total, suggesting that the dollar's decline may be boosting U.S. competitiveness. Finally, while the deficit remains high on a value basis, on a volume basis there is evidence that suggests an improving trend has begun (see chart). During the fourth quarter of 1986 and the first quarter of 1987, for instance, the external sector actually contributed to the expansion of the economy, as real GNP rose at a faster clip than domestic demand. In previous quarters just the reverse was true as strong domestic demand prompted a surge in both import volume and value.

When measured in dollars the improvement in the U.S. trade account is not apparent—because import costs have escalated as a result of the dollar's fall against such major currencies as the Japanese yen and German mark. Thus, Germany reported a 0.6 percent fall in Deutschemark-denominated exports to the U.S. in 1986 whereas the U.S. reported an 18.4 percent rise in the dollar value of imports from Germany.

. . . Masks Global Movements Of Goods . . .

This same thing is true for Germany and Japan. Their trade surpluses are contracting in real terms, although it is not yet evident in nominal terms because of the translation impact of a falling dollar. Consequently the rise of the yen and the mark has increased the value of exports from Japan and Germany when measured in dollar terms, even

U.S. MERCHANDISE TRADE DEFICIT (GNP BASIS): REAL (BAR) VS. NOMINAL (LINE)



Source: Department of Commerce

though in local currency and volume terms, exports have declined because of the steep depreciation of the dollar. Japan is especially vulnerable in this respect because it is much more dependent upon the U.S. market than Germany. Whereas the U.S. accounts for only 10.5 percent of Germany's exports, its share of Japan's exports is 35 percent.

Affected by the cost of producing in yen terms and selling in terms of a depreciated dollar, the volume of Japan's exports has begun to decline. The first quarter of 1987, for instance, marked the fifth straight quarter in which real exports were below the levels of the same quarter in the previous year. The declines, however, have been masked by the growing strength of the yen. As a result, although exports fell 0.5 percent in real terms between the first quarter of 1985, when the dollar peaked, and the first quarter of 1987, in terms of dollars, a 33.4 percent gain was recorded. German exports have similarly been hindered by the strength of the mark, with export volumes rising a

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mere one percent in real terms during the first quarter over the similar 1986 period.

The decline of the dollar has not only distorted the trend in these countries' exports, but in their imports as well. This is because the dollar is the transaction currency in international trade with prices and contracts of many commodities such as oil denominated in dollars. Consequently, the decline in the dollar and still weak world commodity prices have sharply enhanced Germany's and Japan's terms of trade as reflected by the plunge in import prices witnessed by both countries. In Germany, for instance, import prices fell 18.9 percent last year while in Japan they fell by 34.7 percent. As a result, both Germany and Japan are able to import more in volume terms, but it is costing them less.

In Japan, the volume of imports rose 8.1 percent between the first quarter of 1986 and the first quarter of 1987, yet when measured in yen and dollars, imports declined by 22.1 percent and 3.6 percent, respectively. Similarly, during the same period the Germans reported a five percent increase in the volume of imports but a eight percent fall in imports when measured in marks.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/22/87)	157,906	+ 644	+ 1,063
New York City (4/29/87)	35,955	+ 222	+ 1,075
Commercial Paper (4/29/87)	350,670	+ 1,946	+ 50,361

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/22/87)	280,407	– 305	+21,629
New York City (4/29/87)	61,118	– 1,174	+ 3,130

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/22/87)	797,145	+ 2,152	+62,517
New York City (4/29/87)	178,440	– 1,604	+16,894

Financial Markets

	Friday 5/8/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.67%	– .06	– .55
180-Day Bills†	6.09	– .12	– .24
Longest Bills†	6.70	– .01	+ .24
Recent Issues:			
71/8S 4/30/89	7.52	+ .10	
63/4S 3/31/91	7.95	+ .08	
81/2S 5/15/97 (When Issued)	8.43	NA	
83/4S 5/15/17 (When Issued)	8.61	NA	
Municipals:			
Bond Buyer–20 Bond Index* (5/7/87)	7.86%	+ .01	+ .50
Blue List Total ($ Million)	$1,648	– $ 51	–$ 614
30-Day Visible Supply ($ Million)	$3,591	+ $ 63	–$1,332
Total	$5,239	+ $ 12	–$1,946
Corporates:			
Moody's Aa Composite (5/7/87)	9.45%	+ .07	+ .14
30-Day Visible Supply ($ Million)	$3,673	– $2,317	+$ 53
Stocks:			
Dow-Jones Averages:			
Industrials	2,322.30	+ 41.90	+532.87
Transportation	957.38	+ 40.93	+169.35
Utilities	205.49	+ 3.39	+ 22.58
65 Stocks	868.83	+ 21.32	+173.02
N.Y.S.E. Composite Index	165.49	+ 2.85	+ 28.37
N.Y.S.E. Avg. Daily Vol. for Week (000's)	181,477	– 2,433	+56,094

*46% Taxable equivalent 14.56%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/8/87	Week Ago
Overnight	6.56%	6.38%
1 month	6.81	6.88
3 month	7.06	7.13
6 month	7.31	7.25
1 year	7.75	7.69
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	8.58%	8.50%
Long Term (10 yrs.)	9.23	9.15

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/8/87)	Currency Per U.S. $	Week Ago
Canada	1.3352	1.3360
France	5.9850	5.9650
Germany	1.7895	1.7905
Italy	1297.50	1281.25
Japan	139.65	140.45
Mexico	1213.00	1199.00
Switzerland	1.4720	1.4702
U.K.*	1.6745	1.6660

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (5/8/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+2.0%	–8.6%

. . . And Is Disturbing The Markets

It would seem that a further erosion in the dollar's value against the major currencies may prove to be self-defeating in rectifying the present trade imbalances between the major countries. The price impact of a falling dollar could continue to mask a decline in import volumes for the U.S., keeping the U.S. trade deficit at a high level while bolstering the surpluses of Japan and Germany by reducing their import costs. In addition, any renewed plunge in the dollar would hinder economic prospects for Japan and Germany by deterring their exports, reducing corporate profits, and hampering industrial output, making those countries less receptive to U.S. exports.

Although there is justification for the dollar to depreciate further against the currencies of some of our major trading partners such as the newly-industrializing countries of Asia, it is apparent that a further sharp fall in the dollar against the major currencies might have dangerous repercussions for the world economy. Such a development would slow growth in Europe and Japan, and boost U.S. interest rates which, in turn, would slow U.S. economic activity, increase unemployment and retard capital investment. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/6/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	231.563	+15.531	+40.591
Loans to Depository Inst.	2.021	+ 1.223	+ 1.116
Float	.293	+ .359	− .349
Total Reserve Bank Credit	251.182	+17.342	+42.129
Treasury Deposits with Federal Reserve Banks	22.844	+ 9.532	+15.598
Currency in Circulation	210.458	+ .838	+15.307
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	177.389	+ .845	+31.602
	5/6/87		
Member Bank Reserves:			
Total Reserves Held	57.617	− 1.304	+ 9.079
Excess (Deficiency)	.979	+ .181	+ .103
Net Borrowed Reserves	.192	+ .301	+ .736
Monetary Aggregates †		**% Change Since 3 Months Ago***	**% Change Since Year Ago**
M1 (4/27/87)	758.0	+ 7.2‡	+ 16.1‡
M2 (March '87)	2,825.7	+ 3.7	+ 8.7
M3 (March '87)	3,524.3	+ 4.1	+ 8.0
Domestic Nonfinancial Debt (4th Q'86)	7,680.6	+ 13.8	+ 12.1

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 5/8/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.48%	5.81%	6.32%
* Federal Agencies	6.29	6.40	6.67
* Municipal Notes—High Grade (46% Taxable Equivalent)	5.25	5.25	5.00
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.85	7.05	7.50

‡Finance Company Paper—Prime

5- 14 days	6.68%
15- 29 days	6.73
30- 59 days	6.75
60- 89 days	6.75
90-179 days	6.66
180-239 days	6.50
240-270 days	6.50

‡* Bankers' Acceptances

Jun.	6.70%
Jul.	6.80
Aug.	6.90
Sep.	7.00
Oct.	7.00
Nov.	7.00

‡Industrial Paper—Prime

30- 89 days	6.76%
90-120 days	6.82

†Federal Funds Effective Rate 6.70%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'87	$ 4,339	$ 4,259	$ 4,149
Gross National Product (1982 Dollars)*	1st Q'87	$ 3,735	$ 3,696	$ 3,656
Percent Change, Annual Rate	1st Q'87	4.3	1.1	3.8
Change in Consumer Prices*	Mar '87	4.8% (1)	8.4% (1)	− 4.8%
Change in Producer Prices*	Mar '87	4.8%	1.2%	− 10.8%
Civilian Employment (Thousands of Persons)†	Apr '87n	111,835	111,368	108,969
Unemployment as % of Civilian Labor Force†	Apr '87n	6.3%	6.6%	7.1%
Personal Income*	Mar '87	$ 3,604	$ 3,599	$ 3,445
Leading Indicators Composite Index (1967=100)†	Mar '87n	187.5	186.8r	176.4
Industrial Production Index (1977=100) †	Mar '87	126.7	127.1	123.6
Net Change in Consumer Installment Credit †	Mar '87n	−$ 0.06	$ 1.01r	$ 2.39
U.S. Merchandise Trade Balance	Feb '87	−$ 15.07	−$ 12.27	−$ 11.37
Plant and Equipment Expenditures*	2nd Q'87	$396.22(a)	$384.02(a)	$375.92
Private Housing Starts (Thousands of Units)†	Mar '87	1,774	1,833	1,887
New Construction Expenditures*	Mar '87n	$ 379.0	$ 383.9r	$ 368.0
Total Business Inventories †	Feb '87	$ 660.2	$ 659.0	$ 651.9
Total Business Sales †	Feb '87	$ 443.8	$ 425.1	$ 419.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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Commitment

Great Cause, Great Golf!

The Manufacturers Hanover
Westchester Classic
Westchester Country Club
Harrison, N.Y.
June 8-14, 1987

During the last 20 years, the Manufacturers Hanover Westchester Classic has raised over $10 million for the local hospitals. This is a tribute to all the volunteers, fans and corporations who continually support this great charitable event.

This year, defending champion Bob Tway and other top pros from the PGA Tour will compete for $600,000 in prize money.

Tickets are on sale at all the participating hospitals through June 5, thereafter at the gate. Use your Mastercard or Visa Card, by calling (212) 808-8519, Monday through Friday, 9 a.m. -5 p.m.

Spectators are urged to arrive early and be among the first 1500 each day to receive a free visor at the gate. **Make it a point to stop by the Expo '87 tent behind the 18th green.**

Benefiting Hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mount Vernon, White Plains, Yonkers General, Peekskill and Putnam Hospital Center.

BUICK

NABISCO GRAND PRIX

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Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

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New York, N.Y.
Permit No. 585

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SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
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SUITE 800
WASHINGTON, DC 20014